

# EXECUTIVE SUMMARY

## CNMI Single Audit Report as of September 30, 2002

Single Audit Summary No. 04-01, August 26, 2004

### Summary

The Office of the Public Auditor (OPA) is responsible by Public Law 3-91 to “conduct or supervise all audits required for or sought by a Commonwealth Agency”. This includes the consolidated “Single Audit” of the CNMI as a whole. Accordingly, OPA has contracted with Deloitte Touche Tohmatsu, an independent accounting firm, to perform the audit. OPA, in its supervisory role, acted as the contracting agent.

The following is a review of the CNMI’s Financial Statements Single Audit Report for the fiscal year ending September 30, 2002. The summary also contains selected, previously audited data for the fiscal years ending September 30, 1997, 1998, 1999, 2000 and 2001. These audit reports have also been audited by Deloitte Touche Tohmatsu under contract by OPA. This summary by OPA is provided solely for informational purposes and no audit opinion on the related data is expressed or inferred by OPA.

### Auditor’s Opinion

This represents a statement by the auditor as to the degree of reliability that can be placed on the financial statements. The highest standard is called an unqualified opinion. This means that the auditor states that the “statements present fairly in all material aspects the financial condition” of the audited entity. The next level of an auditor’s opinion is a qualified opinion. In this case the auditor’s statement would include the wording “except for” and then a description of the area (s) that can not be relied upon. The lowest standard is called an adverse opinion, in which the auditor states that the financial statements can not be relied upon.

In the case of the CNMI’s FY 2002 audit, the auditor’s opinion was qualified, containing three qualifications. This represents an improvement over the prior year’s opinion which had five qualifications. These qualifications are summarized as follows:

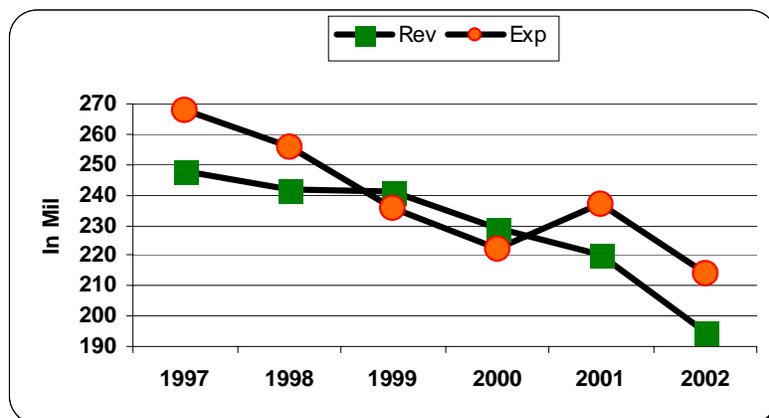
1. The Commonwealth Utilities Corporation (CUC), a significant government autonomous agency, failed to complete its audit for inclusion in the report. This condition has existed since 1998.
2. The Northern Marianas College (NMC), due to inadequate records, could not confirm both its inventory and capital assets.
3. The auditor found inadequacies in the accounting of receivables from the Federal Government, taxes and other debtors.

The effect of these qualifications reduces the reliability that can be placed on the accuracy of the financial statements, but as previously noted, is an improvement over the prior year.

### Select Financial Data

The following represents the General Fund revenues and expenditures as audited for the past six years. The General Fund is the government’s primary operating fund. As such, it is the major indicator of the overall financial condition of the CNMI Government. The reappearance of deficits in FYs 2001 and 2002 after two years of modest surpluses, is indicative of the continued slow down in the general economy and difficulty in reducing General Fund expenditures

The following chart shows the long-term decline in General Fund revenues and the difficulty in reducing expenditures.



The CNMI Constitution forbids the CNMI Government from borrowing funds for operational purposes. As detailed in the audit, the accumulated deficit was funded by the nonpayment of obligations to other government entities, most notably the Retirement Fund and the Rebate Trust Fund. The future ability to repay these related entities, under conventional accounting methodology, relies on the CNMI Government's ability to develop future surpluses in the General Fund. As of September 30, 2002, the deficit totaled \$ 80,921,000. However, the unreserved fund balance totaled a negative \$104,437,000.

The weaknesses in the CNMI Government's financial condition are also reflected in the changes to its overall assets and liabilities as reported by the auditor. In FY 1997, the audited General Fund liabilities totaled \$92,367,000. This amount increased in FY 2002 to \$152,085,000, a 65% increase. Correspondingly, related assets increased from \$56,898,000 in FY 1997 to \$71,163,000 in FY 2002, a 25% increase. This imbalance directly relates to the continuing deficit spending.

### **Notes to the Financial Statements**

The Notes to the Financial Statements are an integral part of the audited financial statements. These notes offer details on the accounting methods used by the entity on a general basis as well as by specific accounts. These notes are inherently valuable for a reader of the financial statements to interpret the financial condition of the entity. Included within the notes to the financial statement is a section noted as Contingent Liabilities. These contingencies relate to potential claims against the assets of the CNMI Government. For FY 2002, several contingencies were listed, including the following:

Unfunded Pension Liability	\$488,693,000
Land Acquisition Costs	<u>40,000,000</u> <sup>(1)</sup>
Total	\$528,693,000

(1) The amount was not specifically reported in contingencies but was later shown as a subsequent events.

The combination of the accumulated General Fund deficit and the potential demands of the noted contingent liabilities, as presented by the auditor, creates a somber picture of the financial health of the CNMI Government.

### **Report on Internal Control and Compliance**

In addition to their report and opinion on the financial statements the auditor also prepares a report and opinion on the CNMI Government's Internal Controls and Compliance with local and federal laws and regulations. For FY 2002, the auditor reported ten findings relating to internal control weaknesses and sixteen findings related to compliance. In total this represents a decrease of three from the prior year.

Internal Controls are those procedures, regulations and oversight that insure that accounting transactions are properly recorded and that the assets of the CNMI Government are properly safeguarded. Of the ten reported findings relating to internal control, six were determined to be material weaknesses. These problem areas as noted by the auditor were:

1. Failure by CUC to complete its financial audit for inclusion in the consolidated audit of the CNMI. This also led to an audit opinion qualification.
2. The Commonwealth Health Center (CHC) records reflect an accounts receivable balance of \$99,802,000. This amount had no offsetting amount for billings determined to be uncollectible. As stated by the auditor CHC has "inadequate controls over receivables", a condition that has been reported since 1995.
3. Advances to vendors lacked adequate documentation and reconciliation which could result in a "misstatement of expenditures and resulted in the qualification in the opinion of the basic financial statements".
4. No reconciliation for local construction projects was made for unexpended balances that were continuing appropriations. This could lead to a misstatement of the required reserve.
5. Insufficient controls existed relating to the eligibility of the CNMI Medicaid Program. Physical access to the data base was not controlled and no independent reviews and/or tests were performed.
6. Equipment inventories related to government grants were inadequately maintained. This condition is not in compliance with federal regulations and, if uncorrected, could lead to reimbursements to the federal agency.

It is encouraging to note that the affected Government agencies cited for these weaknesses have agreed with the findings and have pledged to diligently work to resolve and remove these findings.



A copy of the entire report is available at the Office of the Public Auditor, or through OPA's Website

Michael S. Sablan, CPA  
Public Auditor  
Commonwealth of the Northern Mariana Islands  
Web Site: [www.opacnmi.com](http://www.opacnmi.com)

P.O. Box 501399  
Saipan, MP 96950  
Tel. No. (670) 322-6481  
Fax No. (670) 322-7812